United Nations A/59/155–E/2004/96

General Assembly
Economic and Social Council

Distr.: General
19 July 2004

Original: English

General Assembly
Fifty-ninth session
Items 56, 85, 86, 89 and 91 of the provisional agenda*

Follow-up to the outcome of the Millennium Summit

Macroeconomic policy questions

Follow-up to and implementation of the outcome of the International Conference on Financing for Development

Globalization and interdependence

Eradication of poverty and other development issues

Economic and Social Council
Substantive session of 2004
28 June-23 July 2004
Agenda items 6 and 6 (a)

Implementation of and follow-up to major United Nations conferences and summits

Follow-up to the International Conference on Financing for Development

Letter dated 15 July 2004 from the Permanent Representatives of Canada and Mexico to the United Nations addressed to the Secretary-General

We are pleased to draw your attention to the report entitled "Unleashing entrepreneurship: making business work for the poor", which was presented to you in March 2004 by the Commission on the Private Sector and Development, which in turn had been convened by you in July 2003 and co-chaired by the Right Honourable Paul Martin, Prime Minister of Canada, and Mr. Ernesto Zedillo, former President of Mexico. The report contains, inter alia, recommendations on how the major actors — Governments, public development institutions, the private sector and civil society organizations — can modify their actions and approaches to significantly enhance the ability of the private sector to advance the development process.

The eminent members of the Commission have endorsed the report as a whole to stimulate a wider process of public dialogue and common endeavour. It is hoped that the report will encourage a coalition of major stakeholders to partner with the private sector in order to contribute to the achievement of the Millennium Development Goals and the alleviation of poverty.

In the light of the report's importance and relevance to the work of the United Nations, particularly in the economic and social field, we would be grateful if the present letter and the attached extract from the report (see annex) could be issued as a document of the fifty-ninth session of the General Assembly, under items 56, 85,

* A/59/150.

04-44637 (E) 090804

86, 89 and 91 of the provisional agenda. In addition, we would like to request that it be included for consideration at the substantive session of 2005 of the Economic and Social Council, under the items "Implementation of and follow-up to major United Nations conferences and summits" and "Follow-up to the International Conference on Financing for Development", and at the special high-level meeting of the Economic and Social Council with the Bretton Woods institutions and the World Trade Organization.

The complete report can be accessed at http://www.undp.org/cpsd.

(*Signed*) Allan **Rock**
Permanent Representative of Canada to the United Nations

(*Signed*) Enrique **Berruga**
Permanent Representative of Mexico to the United Nations

Annex to the letter dated 15 July 2004 from the Permanent Representatives of Canada and Mexico to the United Nations addressed to the Secretary-General

Extract from the report of the Commission on the Private Sector and Development to the Secretary-General of the United Nations

UNLEASHING ENTREPRENEURSHIP

MAKING BUSINESS WORK FOR THE POOR

COMMISSION MEMBERS

CO-CHAIRS

The Right Honourable Paul Martin
Prime Minister, Canada

Ernesto Zedillo
Director, Yale University Center for the Study of Globalization
Former President, Mexico

MEMBERS

Eduardo Aninat (Chile)
Former Deputy Managing Director,
International Monetary Fund

Jorge Castañeda (Mexico)
Former Minister of Foreign Affairs, Mexico
Distinguished Professor of Politics &
Latin American Studies, New York University

Luisa Diogo (Mozambique)
Minister of Planning and Finance, Mozambique

Carleton Florina (United States)
President and CEO, Hewlett-Packard Company

Rajat Gupta (India)
Senior Partner Worldwide,
McKinsey & Company

Anne Lauvergeon (France)
Chairman of the Executive Board, Areva Group
President and CEO, Cogema

Jannik Lindbaek (Norway)
Chairman, Statoil ASA

Peter McPherson (United States)
President, Michigan State University

Alan Patricof (United States)
Vice-Chairman and Founder, Apax Partners

Kwame Pianim (Ghana)
CEO, New World Investments

C.K. Prahalad (United States)
Harvey C. Fruehauf Professor of Business
Administration, University of Michigan
Business School

Robert Rubin (United States)
Director and Chairman,
Executive Committee, Citigroup
Former Secretary of the Treasury, United States

Miko Rwayitare (South Africa)
President and Executive Chairman,
Telecel International
Owner Mont Rochelle Winery

Juan Somavia (Chile)
Director-General,
International Labour Organization

Hernando de Soto (Peru)
President, Institute for Liberty
and Democracy, Peru

EX-OFFICIO MEMBERS

Maurice Strong (Canada)
Special Adviser to the Commission

Mark Malloch Brown (United Kingdom)
Administrator, United Nations Development Programme

ALTERNATES

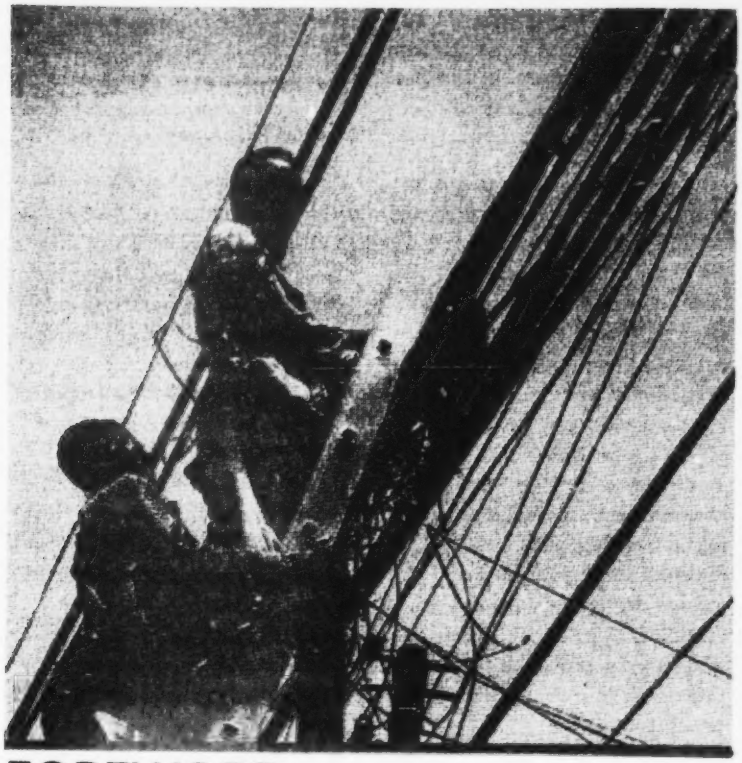
Debra Dunn for Carleton Florina (United States)
Senior Vice President of Corporate Affairs, Hewlett-Packard Company

Michael Froman for Robert Rubin (United States)
President and CEO, CitiInsurance

COMMISSION SECRETARIAT

Executive Director: **Nissim Ezekiel**

Core Team: **Jan Krutzinna, Naheed Nenshi, Yann Risz** and **Sahba Sobhani**



FOREWORD

Ending poverty, the aspiration of the Millennium Development Goals, is the overriding developmental objective of the 21st century. Despite great progress in the past 50 years, 1.2 billion people—one-fifth of the people on Earth—live on less than US $1 a day, without access to many of the social services basic to a decent human life. Their plight requires a global response making full use of all the financial, intellectual and organizational resources that we can muster.

It is against this urgent background that Secretary-General Kofi Annan asked us to convene the Commission on the Private Sector and Development to answer two questions. How can the potential of the private sector and entrepreneurship be unleashed in developing countries? And how can the existing private sector be engaged in meeting that challenge? This report is our responses to these questions.

The report offers recommendations on how the major actors—governments, public development institutions, the private sector and civil society organizations—can modify their actions and approaches to significantly enhance the ability of the private sector to advance the development process. The objective of

poverty alleviation leads us to focus on developing businesses that create domestic employment and wealth—by unleashing the capacity of local entrepreneurs.

We set an ambitious time limit for our work, which has been completed in a little more than half a year since our first meeting in June 2003. Our intention was not to carry out basic research. Much work on the subject is already under way, and major development agencies, private foundations and academic institutions are already focusing their energies on the private sector's contributions to development. Instead, our approach has been to understand and assimilate the work already carried out by all parts of the development coalition, including business, civil society and labour organizations, and to integrate that thinking in the framework presented here.

The Commission's work has been heavily influenced by the voices of entrepreneurs, expressed through their actions and through their responses to wide-ranging surveys launched to understand what most affects their ability to be productive and to grow. It is the capacity, drive and innovation of entrepreneurs that increase the impact of a broadly constituted private sector. Entrepreneurship encompasses the actions of small, informal, village-based individuals as much as it does that of the managers and innovators in multinational corporations and large local companies. It is their voices that we have heard the loudest.

The Commission has also attempted to highlight a broad range of good practices that show how the capabilities of the private sector can best be harnessed for the cause of development and poverty alleviation. The cases include successful approaches that originate with the traditional development players, such as the multilateral development institutions and bilateral aid agencies. But more often they include lesser known but innovative approaches implemented by the private sector—both by companies and civil society organizations. Those approaches rely on market mechanisms and private sector incentives and thus lend themselves much more to the replicability and scalability that we believe needed. One of our key observations is the lack of knowledge about best practices and the great need for more sustained research and analysis of what works and what doesn't.

We concluded at the outset that it would not be enough for this Commission to produce a traditional report voicing opinions and urging others to take action. Instead, we believe that it is critical to develop a set of pilot actions and initiatives that would test the main observations and conclusions of our work—so that their relevance to the real world of development could be demonstrated on the ground. That is why the report ends with an illustrative portfolio of actions that will be developed in greater detail over the next few months—actions that could be implemented on a pilot basis shortly thereafter. Some of them could be driven by the UN system, and some by other partners and stakeholders.

These initiatives are far from enough. We put them out to all of you as indicative of the types of actions that we believe can and should be replicated for the widest possible impact. Nor do we believe that each of them is a perfect model. Country differences require modifying the initiatives—as well as some of our overall recommendations—to fit particular circumstances. Our ideas and conclusions are presented as directional, to elicit reaction and constructive dialogue. The intent is to catalyze a renewed coalition of the major stakeholders—focused more clearly on the challenges outlined here. Such a coalition is essential to unleashing the capacity of the private sector, to achieving the Millennium Development Goals and to alleviating poverty.

Paul Martin
Co-Chair

Ernesto Zedillo
Co-Chair

TABLE OF CONTENTS

COMMISSION MEMBERS

FOREWORD

ACKNOWLEDGEMENTS

HIGHLIGHTS

CHAPTER 1. WHY THE PRIVATE SECTOR IS SO IMPORTANT IN ALLEVIATING POVERTY

Deep poverty remains intractable

The private sector is important for the poor—and often is the poor

Who are all the entrepreneurs?

A focus on the domestic private sector

CHAPTER 2. CONSTRAINTS ON THE PRIVATE SECTOR IN DEVELOPING COUNTRIES

Widespread informality for microenterprises

Few competitive small and medium size enterprises

Lack of competitive pressure on large companies

Foundations for entrepreneurship—not yet in place

Three pillars of entrepreneurship—too often missing

CHAPTER 3. UNLEASHING THE POTENTIAL OF THE PRIVATE SECTOR

Building the foundations

Erecting the pillars

CHAPTER 4. ENGAGING THE PRIVATE SECTOR IN DEVELOPMENT

Serving markets at the bottom of the pyramid

Forming ecosystems and building networks

Fostering public-private partnerships for sustainable development

Improving corporate governance

Advancing responsible business practices and corporate social responsibility standards

CHAPTER 5. RECOMMENDED ACTIONS

Actions in the public sphere: create an enabling environment

Actions in the public-private sphere: partner and innovate

Actions in the private sphere: mobilize capabilities and resources

Looking forward

BIBLIOGRAPHIC NOTE

BIBLIOGRAPHY

BOXES

Box 1.1 The Millennium Development Goals

Box 3.1 Costa Rica's private sector—unleashed

Box 4.1 Resources under the radar screen for private sector development

Box 4.2 Showing what's possible at the bottom of the pyramid

FIGURES

Figure 1.1 More investment—more growth

Figure 1.2 Four billion people at the bottom of the pyramid

Figure 2.1 Informality thrives in poorer countries

Figure 2.2 Small and medium enterprises become more important and informality less important as countries become wealthier

Figure 2.3 Foundations for the private sector and pillars of entrepreneurship

Figure 2.4 Enterprises in low income countries face many more burdens when registering

Figure 3.1 Strengthening the effectiveness of traditional private sector development activities

Figure 4.1 Private sector contributions to private sector development

Figure 5.1 Actions in the three focus areas

HIGHLIGHTS

The Commission believes that any approach to private sector development—and the policy and action recommendations that accompany it—should be grounded in the realization that the savings, investment and innovation that lead to development are undertaken largely by private individuals, corporations and communities.

The private sector can alleviate poverty by contributing to economic growth, job creation and poor people's incomes. It can also empower poor people by providing a broad range of products and services at lower prices.

Small and medium enterprises can be engines of job creation—seedbeds for innovation and entrepreneurship. But in many poor countries, small and medium enterprises are marginal in the domestic ecosystem. Many operate outside the formal legal system, contributing to widespread informality and low productivity. They lack access to financing and long-term capital, the base that companies are built on.

The Commission believes that the primary responsibility for achieving growth and equitable development lies with developing countries. This

responsibility includes creating the conditions that make it possible to secure the needed financial resources for investment.

Those conditions—the state of governance, macroeconomic and microeconomic policies, public finances, the financial system and other basic elements of a country's economic environment—are largely determined by the actions of domestic policymakers. Their challenge is to capitalize on advances in macroeconomic stability and democracy and to launch reforms that bring about further changes in institutional frameworks to unleash and foster the private sector.

Most of the recommended actions involve more than one of the actors working together. Where governments are implementing policy change, it is often with the direct support and involvement of multilateral development institutions. Where the private sector is taking a more active stance on sustainable development, it is often with civil society raising the profile of this issue. Where governments are implementing regulatory reform, it may be in direct consultation with representatives of the private sector. The individual actions identified here should be seen in the framework of this broader cooperation—needed even more to reduce poverty.

Our interest lies in three areas:

1. **In the public sphere,** promoting the reform of laws, regulations and other barriers to growth.
2. **In the public-private sphere,** facilitating cooperation and partnerships between public and private players to enhance access to such key factors as financing, skills and basic services.
3. **In the private sphere,** encouraging the development of business models that can be scaled up and copied and that are commercially sustainable.

ACTIONS IN THE PUBLIC SPHERE: CREATE AN ENABLING ENVIRONMENT

Creating an enabling environment involves steps to reduce the share of the informal sector in an economy, through reform of the overall enabling environment for the formal economy.

For developing country governments

Reform regulations and strengthen the rule of law. Developing country governments have to make a strong and unambiguous policy commitment to sustainable private sector development—and combine that with a genuine commitment to reform the regulatory environment by eliminating artificial and policy-induced constraints to strong economic growth.

Formalize the economy. Developing country governments need to focus on creating the conditions to reduce informality and change the composition of the private sector ecosystem over time.

Engage the private sector in the policy process. Governments need to create a real partnership with representatives of the domestic private sector to implement changes and ensure that the voice of the private sector includes small and medium enterprises and microenterprises.

For developed country governments

Foster a conducive international macroeconomic environment and trade regime. Increasing the flow of development aid and reforming the global trading system to provide fair economic opportunities to producers from developing countries are essential for promoting rapid growth in domestic private investment.

Redirect the operational strategies of multilateral and bilateral development institutions and agencies. In encouraging sustainable private sector development developed countries need to ensure that the collective actions of these agencies are better coordinated—to improve their efficiency and to reduce the pressures on the administrative capacity of developing country governments.

Untie aid. Changes in the administrative rules controlling tied funds would permit more effective use and delivery of technical assistance to stimulate private sector development.

For multilateral development institutions

Apply the Monterrey recommendation of specialization and partnership to private sector development activities. The extent of overlapping activities is counterproductive and needs to be urgently addressed.

Address informality in developing countries. Some pioneering work is underway to map the structure of the informal sector, and a global

effort to expand the coverage of this work is likely to yield significant benefits.

ACTIONS IN THE PUBLIC-PRIVATE SPHERE: PARTNER AND INNOVATE

The Commission believes that all stakeholders need to make concerted efforts in finance, skills and public-private partnerships for the delivery of basic services.

Facilitate access to broader financing options. We envision continuing development of domestic financial markets coupled with skill-building for regulators and private financial institutions.

Assist skill and knowledge development. Skill-building activities could range from programs for top public and private leadership to training microentrepreneurs to joint efforts with public authorities and unions to improve workforce skills.

Make possible sustainable delivery of basic services, particularly energy and water. The Commission sees the need to develop innovative models for partnerships of governmental service providers, multinational companies and local companies.

ACTIONS IN THE PRIVATE SPHERE: MOBILIZE CAPABILITIES AND RESOURCES

The Commission believes that the private sector, particularly large local companies and multinational corporations, must realize that it can contribute to accelerated economic development and to poverty alleviation.

For the private sector

Channel private initiative into development efforts. We believe that the private sector has tremendous potential to contribute to development through its knowledge, expertise, resources and relationships.

Develop linkages with multinational and large domestic companies to nurture smaller companies. Linkages between different types of firms in developing countries provide an effective channel for local companies to gain access to markets, financing, skills and know-how.

Pursue business opportunities in bottom-of-pyramid markets. Recognizing the needs of bottom-of-the-pyramid markets (the 4 billion people who are earning less than $1,500 a year) and creating innovative solutions to meet these needs are other vital actions required from the private sector, both domestic and international.

Set standards. The private sector needs to make a genuine commitment to sustainable development—with a sharp focus on corporate governance and transparency.

For civil society and labour organizations

The Commission believes that civil society and labour organizations have to continue as critical observers of the development agenda—and as facilitators and supporters of innovative approaches for meeting the Millennium Development Goals and improving the quality of life for poor people.

Increase accountability in the system. This is a core part of the work of civil society organizations, as is their leadership in pushing forward the concept of sustainable development. This work should be strengthened.

Develop new partnerships and relationships to achieve common objectives. Civil society organizations are closest to the base of the pyramid. They also are often proxies for experimenting with new technologies for solving problems.

LOOKING FORWARD

To promote progress, the Commission recommends that the United Nations sponsor the tracking of private sector development. An annual progress report would maintain the prominence of the Commission's overall recommendations and ensure the commitment to addressing the many issues identified here.

The Commission is assembling a first set of actionable initiatives to facilitate transformations in individual countries and to provide the tools for governments and the private sector to supplement available resources and begin rapidly implementing a programme of change. These first actions are intended to stimulate a collaborative response from potential partners who read this report. Our message to all of you is: join us.